

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

To Chairman Eccles

Date December 12, 1947

From Thomas L. Smith *T.L.S.*

Subject: Purchase of bonds for  
Treasury accounts.

The purchases of bonds for Treasury trust accounts reduce the surplus Treasury funds available for retirement of marketable debt, dollar for dollar. That is, a portion of the trust fund purchases is financed with net receipts which ordinarily would be made available to the Treasury through the purchase of special issues, and the rest is financed by proceeds from the cash retirement of outstanding special issues.

Therefore it would seem preferable for the System to make all purchases needed to support bond prices. The effect on reserves would be exactly the same as if purchases were made for Treasury account, but additional Treasury funds would be available for the retirement of securities held by the System which are at present being used to reduce the nonmarketable debt held by Government trust accounts.

Unless all bond purchases are made for System Account, it will not be possible to carry out a program of debt retirement such as that outlined in the financing outlook memorandum of December 4, 1947. Instead of a possible 8 billion dollar retirement program in the four months December-March, only about 6 billion could be retired if bond purchases for Treasury account at the rate of 30 million a day (the figure has been from 30 to 80 million each day in December) are maintained on the average during the period. Instead of retirement of 7 billion held by Reserve Banks, only 5 billion could be retired.

The effect on the retirement program is almost immediate, beginning with the failure of the Treasury to retire the recommended 100 million dollars of bills on December 18. The retirement of January 1 certificates held by the Reserve Banks probably can be carried out, but either no more bills can be retired through January or else February 1 certificates held by the Reserve Banks cannot be retired. We are reworking the weekly estimates of changes in the cash balance and the effect of Treasury operations on bank reserves, to indicate in more detail the effect of purchases for Treasury account through March.